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VIA FEDERAL EXPRESS

July 7, 1997

William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street, NW
Room 222
Washington, DC 20554

Re: Reply Comments to WT-Docket 97-82; DA-97-679:
Broadband PCS C and F Block Installment Payment Issues:
Duluth PCS, Inc., St. Joseph PCS, Inc., and West Virginia PCS, Inc.

Dear Mr. Caton:

Submitted herewith, on behalf of the above referenced, in original and ten(10) copies, is a reply to those comments received by the Federal Communications Commission, pertaining to the Federal Communications Commission Public Notice, **WIRELESS TELECOMMUNICATIONS BUREAU SEEKS COMMENTS ON BROADBAND PCS C AND F BLOCK INSTALLMENT PAYMENT ISSUES**, WT Docket 97-82; DA 97-678, released June 2, 1997. These comments are being submitted on or before the July 8, 1997, response date.

Should the Commission have any questions concerning these matters please contact the undersigned.

Sincerely,

Richard L. Vega, Jr.
President

Encl:

cc: Duluth PCS, Inc., et al.

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TO THE

FEDERAL COMMUNICATIONS COMMISSION

Reply Comments of:	)	WT Docket 97-82
	)	DA-97-679
Duluth PCS, Inc.,	)	
	)	Broadband PCS C and F Block
St. Joseph PCS, Inc.,	)	Installment Payment Issues
	)	
and West Virginia PCS, Inc.	)	

Duluth PCS, Inc., et al ("Licensees"), hereby submits its reply to the comments received by the Commission in response to the captioned proceedings. For the reasons set forth below, the Licensees submit that the public interest, convenience, and necessity would be served by the adoption of its recommendations as submitted for consideration during the initial comment period.

JUSTIFICATION FOR DEBT RESTRUCTURING IS SHOWN IN COMMENTS

The Licensees agree with the Small Business Coalition ("The Coalition") in its comments, which state that "...any modification of existing obligation should be a measured response to the realities of the financial marketplace, rather than a rescue mission for licensees in financial jeopardy as a result of their own actions.[1]" The Licensees believe that the underlying demise in the financial environment for PCS financing can be attributed to three factors: A/B Block head start to the financial markets; obsessively high bid prices paid by a few Designated Entity ("DE") Bidders; and the **financial institutions' forced subordinated position to the FCC.** With regard to the latter factors, it is paramount for the Commission to understand that, prior to the commencement of the auction, the bidders were <u>not</u> made aware of the necessity to sign security agreements and promissory notes at the conclusion of the auction, giving the Commission a senior collateralized position. Had the bidders known that the investors would become subordinate to the Commission, it is predicted that the bid amounts would not have gone as high.

The head start that the A/B Block bidders received over the C Block bidders has lead to a phenomenon in which the value of the obligation to the FCC now exceeds the value that investors calculate the entire PCS opportunity. In its comments, Bear Stearns and Company, Inc. ("Bear-Stearns"), correctly states that uncollateralized lenders will want to be able to rely on the continuity of the PCS business and, under the Commissions current structure, the financial "stumble" by the Licensee would result in revocation of the license. Hence, the lender would lose full value to the junior debt.[2]

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[1]See comments of the Small Business Coalition, dated June 23, 1997.

[2]See Bear-Stearns Comments, dated June 23, 1997.

OVERWHELMING MAJORITY SUPPORT SOME FORM OF PAYMENT RELIEF

An overwhelming majority of the comments received by the Commission are in full or partial support of some payment restructuring in order to compensate for the current financial conditions and the unforseen requirement to pledge its license(s) among other things to the Commission in the event of default. In the comments submitted by Southwestern Bell Mobile Systems, Inc., states that relief is consistent with Congressional and Commission intent to which the Licensees concur.[3] To truly fulfill the desires by Congress that the economic opportunity be afforded to those disadvantaged entities, relief is essential.

ALTERNATIVE PROPOSALS TO DEBT RESTRUCTURING

While an overwhelming majority of the commenters agree that payment restructuring should be adopted, very few focus specifically on fair methods of bid amount reduction, other than the reoccurring plea that the Commission should readjust the amounts downward to more closely reflect A and B Block prices paid. The Licensees, in its comments, submitted a more scientific approach to calculate bid amount reduction. It's approach would take into account multiple factors such as the prices paid for all six individual licenses made available in the PCS Broadband service and to the disparity between larger sized markets opposed to smaller sized markets (not all POPS are created equal). Attached are the full set of comments submitted by

[3]See Southwestern Bell Mobile Systems, Inc., Comments, dated June 23, 1997.

the Licensees which details the appropriate method to recalculate the debt owed to the government. In short, the Licensees were able to devise a multiplier which should be used to recalculate debt to the government, based primarily on market size.

The Licensees do support the additional comments submitted by various commenters, including Horizon Personal Communications ("Horizon"), who proposes that the Commission alter its partitioning and/or disaggregating rules to allow each licensee to negotiate its own arrangement with a third party if it desires.[4] Additionally, the Licensees hope that the Commission recognizes that the bid amounts, even if adjusted, exceed even the most far reaching predicted amounts raised by the government in the auction, and as such, should move to completely eliminate the barriers of "unjust enrichment" rules. The Licensees support Clearcom in their request that the Commission eliminate the unjust enrichment rules in those cases where DE Bidders paid extensively more than comparable spectrum paid by non DE Entities.[5]

CONCLUSIONS

It is evident that the Commission is justified and within its power to make modifications to its rules to enforce the intent of Congress, which calls for the Commission to promote

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[4]See Comments of Horizon Personal Communications, dated June 20, 1997.

[5]See Comments of Clearcom, dated June 23, 1997.

participation by disadvantaged entities. The Licensees urge the Commission to adopt its plan as originally submitted, with its comments included herein for reference, and apply these changes only for those existing C and F Block Licensees with less than 40 Million Dollars in annual gross revenue.

Sincerely,

Richard L. Vega, Jr.
Its Vice President
Duluth PCS, Inc.
St. Joseph PCS, Inc.
West Virginia PCS, Inc.
1245 W. Fairbanks Avenue
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July 8, 1997

CERTIFICATE OF SERVICE

I, Tina L. Little, hereby certify that copies of the foregoing "Reply Comments of: Duluth PCS, Inc., St. Joseph PCS, Inc., and West Virginia PCS, Inc." in WT Docket No. 97-82, in response to Public Notice DA 97-679, were served via Federal Express Priority Overnight Service this 7th day of July, 1997, to the persons listed below:

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Auctions and Industry Analysis Division
Wireless Telecommunications Bureau
Federal Communications Commission
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Dan Phythyon
Acting Chief
Wireless Telecommunications Bureau
Federal Communications Commission
2025 M Street, NW
Room 5002
Washington, DC 20554

Signed this 7th day of July, 1997.

____

Tina Lynn Little

CERTIFICATE OF SERVICE

I, Tina L. Little, hereby certify that copies of the foregoing "Reply Comments of: Duluth PCS, Inc., St. Joseph PCS, Inc., and West Virginia PCS, Inc." in WT Docket No. 97-82, in response to Public Notice DA 97-679, were served via US Mail this 7th day of July, 1997, to the persons listed below:

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Signed this 7th day of July, 1997.

Tina Lynn Little

THE RICHARD L. VEGA GROUP

Telecommunications Engineers/Consultants

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VIA FEDERAL EXPRESS June 23, 1997

William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street, NW
Room 222
Washington, DC 20554

Re: Comments to WT-Docket 97-82; DA-97-679:
Broadband PCS C and F Block Installment Payment Issues:
Duluth PCS, Inc., St. Joseph PCS, Inc., and West Virginia PCS, Inc.

Dear Mr. Caton:

Submitted herewith, are twelve(12) duplicates and one(1) original copy, on behalf of Duluth PCS, Inc., et al. each a licensee of numerous Personal Communications Services ("PCS") markets throughout the United States, are its comments in response to the Federal Communications Commission Public Notice, **WIRELESS TELECOMMUNICATIONS BUREAU SEEKS COMMENTS ON BROADBAND PCS C AND F BLOCK INSTALLMENT PAYMENT ISSUES**, WT Docket 97-82; DA 97-678, released June 2, 1997. These comments were inadvertently sent to and received by Mellon Bank on Monday, June 23, 1997. As such, it is respectfully requested that the Commission treat these comments as timely filed.

Should the Commission have any questions concerning these matters please contact the undersigned.

Sincerely,

Richard L. Vega, Jr.
President

Encl:

cc: Duluth PCS, Inc., et al.

THE RICHARD L. VEGA GROUP

Telecommunications Engineers/Consultants

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COPY

VIA FEDERAL EXPRESS

June 20, 1997

William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street, NW
Room 222
Washington, DC 20554

Re: Comments to WT-Docket 97-82; DA-97-679:
Broadband PCS C and F Block Installment Payment Issues:
Duluth PCS, Inc., St. Joseph PCS, Inc., and West Virginia PCS, Inc.

Dear Mr. Caton:

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Should the Commission have any questions concerning these matters please contact the undersigned.

Sincerely,

Richard L. Vega, Jr.
President

Encl:

cc: Duluth PCS, Inc., et al.
Honorable Chairman Reed Hundt
Honorable Commissioner James Quello
Honorable Commissioner Susan Ness
Honorable Commissioner Rachel Chong
(2) Auctions & Industry Analysis Division

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	WT Docket 97-82
Broadband PCS C and F Block	)	DA 97-679
	)	
Installment Payment Issues	)	
	)	

COMMENTS ON BROADBAND PCS C AND F BLOCK INSTALLMENT PAYMENT ISSUES

In response to WT Docket 97-82, these comments are submitted on behalf of Duluth PCS, Inc., St. Joseph PCS, Inc. and West Virginia PCS, Inc., ("Licensees" or "the Licensees"), winning C block bidders for Duluth, Minnesota and St. Joseph, Missouri as well as winning F block bidders for Parkersburg and Logan, West Virginia and Kirksville, Missouri. These comments are being filed by the President of these companies, Richard L. Vega, Sr.

Richard L. Vega, Sr. is also Chairman of The Richard L. Vega Group, Inc., a Telecommunications Engineering and Management Consulting Company that has been providing its services to the wireless industry for the past twenty-five years.

The aforementioned Licensees, in response to the Commission's request for "alternative proposals for calculating the present value of the broadband PCS C and F block debt to the government that would permit licensees to prepay the debt based on the net present value" offer proposals for the C and F block debt. ***The Licensees respectively request that the following proposals be adopted only for existing C and F block licensees with less than $40 million in annual gross revenue:***

C BLOCK DEBT RESTRUCTURE/PREPAYMENT PROPOSAL

- For secondary and tertiary markets (defined as markets outside of the top 100 markets in terms of population size), revalue the debt owed to the government by winning C block bidders to the average of the D and E block winning bids for the respective market, times a multiplier of 2.25, less all previous interest and principal payments which should be treated as if they were principal payments to arrive at the restructured debt balance. A multiplier is necessary to reflect the 30 MHz of bandwidth of the C block license versus the 10 MHz of bandwidth for the individual D and E block licenses. The multiplier to be applied to the average winning bids of the 10 MHz D and E block licenses should not be 3 for these markets. The rationale for this is that 10 MHz of spectrum is ample capacity to serve the public given the potential for 8 wireless carriers in these less densely populated markets. The use of a 2.25 multiplier would recognize the intrinsic value of additional spectrum for future wireless services that are not presently projected as revenue in a carriers' existing business planning model. Upon revaluing the debt, the FCC should provide the C block licensee with up to 1 year from the date of the restructuring to pay the new reduced debt balance. It is also recommended that interest would ***not*** accrue during the 1 year period (See Exhibit A for an example calculation).

- For top 100 markets, revalue the debt owed to the FCC by winning C block bidders to the average of the D and E block winning bids for the respective market, times a multiplier of 3, less all previous interest and principal payments which should be treated as if they were principal payments to arrive at the restructured debt balance. A multiplier of 3 is warranted for these markets to reflect the extreme difference in population density which ultimately would require a successful D and E block operator to acquire additional spectrum in order to further grow its customer base. Upon revaluing the debt, the FCC should provide the C block licensee with up to 1 year from the date of the restructuring to pay the new reduced debt balance. It is also recommended that interest would ***not*** accrue during the 1 year period.

F BLOCK DEBT RESTRUCTURE/PREPAYMENT PROPOSAL

- For all markets, the FCC should revalue the debt by discounting all of the cash outlays required of the licensee in each respective market under the existing financing plan utilizing a discount rate of between 15% to 20% and then subtract all previous interest and principal payments which should be treated as if they were principal payments in order to arrive at the restructured debt balance. A 15% to 20% discount rate should be utilized by the Commission to reflect the high uncertainty and risk that exists with respect to F block licensees being able to acquire the necessary capital to construct their systems and absorb extensive operating losses in the first few years of operations (as opposed to the large D and E block entities). The use of a discount rate of between 15% to 20% is appropriate given that high yield junk bonds and venture capital with their extreme cost of capital may be the only financing source available to truly small businesses desiring to participate in the industry. Upon revaluing the debt, the FCC should provide the F block licensees with up to 1 year from the date of the restructuring to pay the new reduced debt balance. It is also recommended that interest would ***not*** accrue during the 1 year period (See Exhibit B for an example calculation).

REQUEST FOR ADDITIONAL RELIEF

In addition to the aforementioned request to the Commission to allow the truly small business entities with C and F block licenses the opportunity to prepay their license debt under restructured terms, the Licensees also respectfully petition the Commission for the following on behalf of ***all*** C block and F block licensees:

- Extend all PCS license terms to 20 years to reduce the business risk of the existing licensees and prospective creditors that is associated with the licensee's ability to obtain the necessary capital investment in order to construct the PCS system and sustain the operation until the business is able to generate positive free cash flow.
- Modify the C block control group rules so that they afford a greater opportunity for existing licensees to transfer control of their licenses in order to attract the necessary capital investment to construct systems and absorb the extensive operating losses in the first few years of operation.
- Permit the transfer of C block licenses before the end of the 5 year holding period without "unjust

enrichment" payments in recognition of the high degree of risk that existing licensees have already undertaken in order to attempt to provide consumers with extensive competition for wireless service offerings. In so doing, the Commission would be assisting the industry's efforts to attract capital investment which is consistent with the public interest.

- Increase the level of foreign equity permitted to greater than 50% in order to avail existing licensees access to global equity markets. Given the large capital investment required to construct and operate competitive PCS systems, the existing rules are not appealing to foreign equity investment because minority interests do not allow for management control over the extensive capital that is at risk.

JUSTIFICATION FOR LICENSEES' PETITIONS TO THE COMMISSION

In response to Congressional direction, the Commission established blocks of frequencies that were to be reserved for Small Business entities (i.e. the C block and F block). During the comment period which established the PCS Rules, it was noted that the Small Business Administration defined a "Small Business" as an entity with less than $6 million in annual gross revenues. However, the Commission permitted entities with an aggregate of up to $500 million in gross annual revenues to bid in the C and F blocks. What occurred thereafter is what we are commenting on today.

We respectfully submit that an entity having approximately $500 million in annual revenue is not a "Small Business" by any reasonable definition of the term to the average American citizen. We argue therefore that these large entities should not have been permitted to compete for the block C and F licenses and that their inclusion in the auction of the C and F block licenses harmed the true Small Business telecommunications entities such as Duluth PCS, Inc. and St. Joseph PCS, Inc. (auction participant known as the RLV-PCS I Partnership). We believe that the strategy of the large entities was to acquire as many of the top 100 markets at any price. We speculate that the underlying rationale for their overly aggressive bidding was that the markets when aggregated were worth more than the sum of the individual pieces. This thought process would be relative to an exit strategy to sell the operations in five to seven years to a deep pocketed player seeking entry into the wireless communications industry with a national footprint.

As a result of the aforementioned aggressive bidding by a small number of larger entities in the C block auction, other C block auction participants like the RLV-PCS I Partnership, which have less than $40 million in annual gross revenue, were precluded from executing a business strategy to acquire a single top 100 market which represented the best ***"value"*** or lowest price per pop. It was evident early on in the auction that a top 100 market was "out of reach" of the Licensees due to the aggressive bidding of a handful of large C block entities. Accordingly, the auction and business strategy of the Licensees had to be refocused on secondary and tertiary markets. Unfortunately, the Licensees found that even the bidding for these markets was intense, resulting in substantially higher than anticipated net winning bids. We speculate that there was more demand for these markets from other smaller entities which were also relegated to bidding only for the secondary and tertiary markets. Evidence of a small number of larger entities driving the true Small Business telecommunications entities to the auction sidelines is the fact that of the approximately 255 bidders that were originally qualified to bid in the C block auction, only 89 bidders survived to acquire 1 or more of the 493 available licenses. The C block auction resulted in 2 bidders alone accounting for 99 of the 493 licenses. Further, 15 bidders acquired 10 or more licenses. This group of 15 bidders accounted for 273 of the 493 licenses.